

UNCHARTED WATERS

Marine insurance may not have changed much in principle, but as **Ben Abbott** finds, the modern client is driving commoditisation and competition is likely to see some insurers stay the course – and others haul anchor

Oceanic Marine Risks managing director Maria Dwyer has seen many changes to the marine insurance broking business in recent decades, since the business was founded in 1986.

With offices in North Queensland and Brisbane offering specialty broking services in commercial hull and marine liabilities, Dwyer has recently benefited from a buoyant period in her market niche in the region, and seen fairly consistent rates for clients at renewal.

"This may be because the commercial tonnage in Australia has increased because of the oil and gas projects in Gladstone and the North West Shelf WA. Like any other commodity, the supply and demand relationship holds up," Dwyer says.

However, things are set to change for her business in the near future. Given much of the oil and gas work has been completed, Dwyer is expecting commercial fleets to reduce their vessel numbers over the next 12 months, and this has already started to some degree.

"As a broker who has enjoyed growth in this time due to the oil and gas projects, we are mindful that many of our clients will probably be

downsizing in the near future," she said.

Surprisingly, this is not the greatest challenge Dwyer's business is facing. Instead – just like many other segments of the broader insurance market – it is commoditisation she is watching, pushed by the fast-changing expectations and demands of the modern client.

Dwyer's experience reflects trends in the marine insurance sector more broadly, where both brokers and insurers are feeling the powerful currents of a number of market dynamics. With ample capacity chasing business and strong competition from insurers and agencies – as well as the forces of commoditisation encroaching on new areas of the market – brokers and product providers alike are having to find their way in uncharted waters.

THE COMMODITISATION WAVE

Some products in the marine sector have been commoditised for some time, with small transit cargo in particular a vanilla risk long-since the domain of electronic platforms. The SME marine insurance market is also fast becoming commoditised, while the pleasure craft segment is



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bowing to the same tech-driven trend.

However, brokers are asking the question – why would this trend stop there?

“We can see that cargo has been commoditised for years, and marine liabilities are going that way as we speak, so next it will probably be commercial hull,” Dwyer says.

Commercial hull? A high value, complex risk, commercial hull has always been seen by most – including Dwyer – as a strong ‘last bastion’ against commoditisation’s advance.

While that is still the case, how much longer will it stand? “If you’d said five years ago you could commoditise marine liabilities, I would have been sceptical. But we are. So why not the rest? Our clients are dictating our approach, and we have to listen to them,” Dwyer says.

Suncorp Commercial Insurance national manager of marine underwriting, Mark Williams, says he has not seen commoditisation develop in the commercial hull market – though he says this does not mean it couldn’t happen.

Factors that count against it, however, include the size of the market segment, the small number of clients, and the subsequent cost effectiveness up and down the supply chain.

However, Dwyer says on the broker level, it is already being conceived. “We are thinking about it now, so it must be,” says Dwyer. “We are thinking about ways to reduce our workload, to spend less time in the office and more time with the client. In a more meaningful way insurers and underwriters feel the same, and are doing the same at their end.”

The question commoditisation raises is, what happens to the insurance talent and jobs?

“Our role is already changing to one of being an integral part of the client’s advisory network,” Dwyer says. “Unfortunately, the commoditisation process will probably mean less jobs in the marine insurance industry as it improves efficiencies, reduces duplication and streamlines processes. Will commoditisation turn brokers into processors?”

National underwriting manager of CGU Insurance’s marine business, Oliver Miloschewsky, says commoditisation is “the biggest question” facing the market over the next few years.

“While this clearly drives efficiencies, it also

The problems with platforms



In an age of increasing commoditisation, an insurance broker’s ability to identify when it is appropriate to use an online platform and when to arrange more tailored cover can “save their client from disaster”, according to Mark Williams.

Suncorp Commercial Insurance’s national manager of marine underwriting, Williams says brokers need to be mindful when it comes to the likes of marine cargo cover.

“They [platforms] are quick, convenient and effective tools, but they are not meant for complicated risk profiles,” Williams explains. “The international nature of trade will sometimes introduce risk elements, restrictions or compliance requirements, which only become apparent as knowledge of the shipment or trade is investigated.”

He gives the example of many countries requiring that domestic cargo movements be covered by a locally licensed insurer on an ‘admitted policy’.

“If, for example, a client is exporting to China and their goods have completed the export shipment, they may still need a local insurer to cover them for their cargo being moved within China,” Williams says.

“Although the policy may offer the ability to cover the goods until final destination as part of an export shipment, all parties need to be clear on what the final destination is otherwise it may render the policy non-compliant with Chinese law.”

Clients may also be in breach of local regulations if their non-admitted policy by a foreign insurer does not account for the payment of local taxes and charges.

Likewise, platforms fail to take into account the existence of embargos and trade sanctions, meaning clients could break the law and not be covered by insurance. “Recent examples of countries affected by sanctions include Russia and Iran,” Williams said. “The critical message to brokers is to be asking these questions for their client. Brokers need to understand exactly how their client’s business is operating and what other external influences or risk aspects may influence the coverage they can obtain,” Williams concluded.



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Swimming with the tide



Though climate change has dropped down the political agenda in Australia, it is the business of marine sector insurers to know the risks the climate data is revealing.

Sunderland Marine – which sees future growth in its business coming from the niche market presented by the aquaculture industry, in addition to its traditional fishing vessel strength – says climate change risks are critical to marine insurers.

“We have our own risk groups, and we monitor things like climate change very closely,” says Sunderland Marine Australian branch manager Chris Kennedy.

“It’s definitely an area of interest for us, because not only does it affect aquaculture, but also the fishing side of things as well; it impacts things like wild fish stocks, and the risk of flooding and damage in areas such as marinas and ports, for example.”

With growth in the fishing industry currently static, Sunderland sees increased business flowing from the increased demand for farmed seafood.

“The principal cause of loss is disease, followed by environmental conditions; that can include things like natural algal blooms or simply storm damage.”

removes the training ground for our future underwriters and it will have a significant impact on succession planning and talent management,” he says. “How are we going to train up-and-coming underwriters in an environment where an electronic platform takes care of all SME business and a senior underwriter position is the new entry level role for specialty lines such as marine?”

Dwyer argues commoditisation can be good if it eliminates duplications and increases efficiencies, but providing career paths for staff will increasingly be a challenge.

CURRENTS OF COMPETITION

Marine insurance is not immune from the other hallmark trends of the current market.

“Marine insurance, as one of the most international classes of insurance, is often seen as a comparatively easy class to deploy capital and expertise,” says CGU’s Miloschewsky.

A low interest environment and a still comparatively attractive Australian dollar has led over the last couple of years to a “high degree of fragmentation and abundance of capacity” in marine insurance, Miloschewsky says.

Suncorp’s Mark Williams agrees. “The marine market has had very high levels of capacity for some time. As is the case with any insurance market with excess capacity, this is resulting in some insurers severely cutting prices in order to chase

market share.”

Miloschewsky says some capacity is “purely opportunistic”, and that there is not a lot of longevity in such propositions, or the desire to build and lead the Australian market.

Williams argues that cutting prices is having a negative impact on the profitability of some players, and may lead them to change their risk appetite and exit product classes.

“The market has already seen some significant insurers exiting certain marine products, Williams says. “Well-established players with a broad range of covers and sustainable pricing are best placed to see through the coming period of realignment.”

Such conditions are a challenge, as much as they are an opportunity. “As a market, we need to be able to offer more than capacity and, in an environment where more and more operations are moved offshore, we believe there is a need and opportunity for renewed leadership and to capitalise on local expertise and service,” Miloschewsky says.

The pattern is much the same in the pleasure craft market. Club Marine CEO Simon McLean says the business is currently seeing aggressive competition driven by a few new entrants.

“This will likely have the impact of placing downward pressure on pricing in the short term as newer competitors attempt to establish market share,” McLean says.

The competition is at times erratic. “We are seeing a real mix of strategies in the market from our competitors, with some withdrawing from certain classes altogether – such as swing moorings and older vessels – yet others are pricing very aggressively in the same classes.”

McLean says competition, in combination with a lack of significant catastrophes over the past 12 to 18 months, will mean the strong possibility of a continuation of large price variances in some pleasure craft classes. However, he says that “a few significant events” could change this situation quite quickly, especially for those with offshore security.

“Club Marine is focused on long-term sustainability, not short-term growth, and our pricing will reflect this moving forward,” McLean says.

Miloschewsky says what is lacking in the aggressive push for new business is the resourcing to service the needs of brokers and insureds from an underwriting and claims point of view.

FUTURE ASSURED?

For Oceanic Marine Risks' Dwyer, the future of marine insurance broking will be almost fully shaped by those she spends her time focused on – her clients.

"My future challenges are not coming from the marine insurance market, they are coming from the marine insurance client," she says. "I am not overly worried about premiums increasing or capacities being reduced. I am more concerned about making sure my business model can enable me to meet my clients' expectations, increase efficiencies and provide career paths for my staff and ultimately grow the business," she says.

However, in CGU's view at least, the broker offering is clearly here to stay in the marine segment. "We very much believe that there will always be a role for specialist brokers who understand their client's business and service them well," says Miloschewsky.



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Simon McLean, Club Marine

"Over time, the challenge for brokers will be to ensure they continue to deliver value to their clients who become more and more tech savvy and who have ever-increasing access to insurance solutions driven by commoditisation. 